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Follow-up to the outcome of the Millennium Summit

Sustainable development and international economic cooperation: high-level dialogue on strengthening international economic cooperation for development through partnership

Operational activities for development

Letter dated 18 March 2003 from the Permanent Representative of Italy to the United Nations addressed to the Secretary-General

On 24 and 25 February, the heads of multilateral and bilateral development institutions and representatives of the International Monetary Fund, other multilateral financial institutions and partner countries gathered in Rome to attend the High-Level Forum on Harmonization. The meeting was co-sponsored by five multilateral development banks — the World Bank, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank — the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) and the Italian Government. The issues debated have a great relevance in the light of the outcome of the International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, and testify to the efforts to improve the effectiveness of development assistance to meet the Millennium development goals.

I should be grateful if you would have the present letter and the attached Rome Declaration on Harmonization (see enclosure) distributed as a document of the fifty-seventh session of the General Assembly under agenda item 44, entitled "Follow-up to the outcome of the Millennium Summit", agenda item 86 (d) entitled "Sustainable development and international economic cooperation: high-level dialogue on strengthening international economic cooperation for development through partnership", and agenda item 88, entitled "Operational activities for development".

(*Signed*) Sergio **Vento**
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Enclosure

Rome Declaration on Harmonization

Rome, 25 February 2003

1. We, the heads of multilateral and bilateral development institutions and representatives of the IMF, other multilateral financial institutions, and partner countries gathered in Rome, Italy, on February 24-25, 2003, reaffirm our commitment to eradicating poverty, achieving sustained economic growth, and promoting sustainable development as we advance to an inclusive and equitable global economic system. Our deliberations are an important international effort to harmonize the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs). They directly support the broad agreement of the international development community on this issue as reflected in the Monterrey Consensus (*Report of the International Conference on Financing for Development*, March 2002, para. 43). We express our appreciation to the governments of Jamaica, Vietnam, and Ethiopia, and to the bilateral donors and international institutions that sponsored and coordinated regional workshops in Kingston, Hanoi, and Addis Ababa in January 2003, in preparation for the Rome Forum. The key principles, lessons, and messages synthesized in the reports of these workshops have provided valuable input to the Forum.

Improvements in Development Effectiveness

2. We in the donor community have been concerned with the growing evidence that, over time, the totality and wide variety of donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries. We are also aware of partner country concerns that donors' practices do not always fit well with national development priorities and systems, including their budget, program, and project planning cycles and public expenditure and financial management systems. We recognize that these issues require urgent, coordinated, and sustained action to improve our effectiveness on the ground.

3. We attach high importance to partner countries' assuming a stronger leadership role in the coordination of development assistance, and to assisting in building their capacity to do so. Partner countries on their part will undertake necessary reforms to enable progressive reliance by donors on their systems as they adopt international principles or standards and apply good practices. The key element that will guide this work is a country-based approach that emphasizes country ownership and government leadership, includes capacity building, recognizes diverse aid modalities (projects, sector approaches, and budget or balance of payments support), and engages civil society including the private sector.

Good Practice Standards or Principles

4. We acknowledge that while our historical origins, institutional mandates, governance structures, and authorizing environments vary, in many instances we can simplify and harmonize our requirements and reduce their associated costs, while improving fiduciary oversight and

public accountability and enhancing the focus on concrete development results. We endorse the good practice work by the technical groups of the DAC/OECD Task Force and the multilateral development banks (MDBs), and look forward to the expected completion next year of the UN harmonization work that is being coordinated by UNDG. We are ready to follow existing good practices while continuing to identify and disseminate new ones.

Going Forward

5. We agree that, for both donors and partner countries, the progress we make on the ground in programs and projects will be a concrete and important measure of the success of our efforts. We recognize that such progress can be facilitated and enhanced by harmonization efforts at the international and regional levels. Building on the work of the DAC/OECD and MDB working groups and on country experience, including the recent country initiatives, we commit to the following activities to enhance harmonization:

- Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonization efforts are adapted to the country context.

- Reviewing and identifying ways to amend, as appropriate, our individual institutions' and countries' policies, procedures, and practices to facilitate harmonization. In addition, we will work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonize documentation.

- Implementing progressively—building on experiences so far and the messages from the regional workshops—the good practice standards or principles in development assistance delivery and management, taking into account specific country circumstances. We will disseminate the good practices (synthesized in Annex A) to our managers and staff at headquarters and in country offices and to other in-country development partners.

- Intensifying donor efforts to work through delegated cooperation at the country level and increasing the flexibility of country-based staff to manage country programs and projects more effectively and efficiently.

- Developing, at all levels within our organizations, incentives that foster management and staff recognition of the benefits of harmonization in the interest of increased aid effectiveness.

- Providing support for country analytic work in ways that will strengthen governments' ability to assume a greater leadership role and take ownership of development results. In particular, we will work with partner governments to forge stronger partnerships and will collaborate to improve the policy relevance, quality, delivery, and efficiency of country analytic work.

- Expanding or mainstreaming country-led efforts (whether begun in particular sectors, thematic areas, or individual projects) to streamline donor procedures and practices,

including enhancing demand-driven technical cooperation. The list of countries presently involved includes Ethiopia, Jamaica, Vietnam, Bangladesh, Bolivia, Cambodia, Honduras, Kenya, Kyrgyz Republic, Morocco, Niger, Nicaragua, Pacific Islands, Philippines, Senegal, and Zambia.

- Providing budget, sector, or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place. Good practice principles or standards—including alignment with national budget cycles and national poverty reduction strategy reviews—should be used in delivering such assistance.

- Promoting harmonized approaches in global and regional programs.

6. We wish to record that a positive by-product of our collaboration on harmonization has been increased information sharing and improved understanding of commonalities and differences during the preparation or revision of our respective operational policies, procedures, and practices. We will deepen this collaboration in the future, and will explore how such collaboration could help to ensure that new or revised policies are appropriately harmonized or "harmonizable" with those of the partner countries and donor institutions.

7. We recognize the global work on monitoring and assessing the contribution of donor support to the achievement of the MDGs. We will track and, as necessary, refine lead indicators of progress on harmonization such as those described in the DAC/OECD Good Practice Papers.

8. We acknowledge the potential contribution of modern information and communication technologies to promoting and facilitating harmonization—already demonstrated by the use of audio and videoconferencing facilities in the staff work on harmonization, the Development Gateway, the Country Analytic Work website, and the early work on e-government, e-procurement, and e-financial management. We commit to further efforts to exploit these technologies.

Next Steps

9. Partner countries are encouraged to design country-based action plans for harmonization, agreed with the donor community, that will set out clear and monitorable proposals to harmonize development assistance using the proposals of the DAC/OECD Task Force and the MDB technical working groups as reference points. In turn, the bilateral and multilateral agencies will take actions to support harmonization at the country level. As part of their self-evaluation processes, bilateral and multilateral agencies and partner countries will assess and report on progress in applying good practices, and on the impact of such practices. Whenever possible, we will use existing mechanisms to develop such plans and to assess and report on progress, and we will make these plans available to the public.

10. We will utilize and strengthen, including through partner country participation, existing mechanisms to maintain peer pressure for implementing our agreements on harmonization. In this regard and in the context of the New Partnership for Africa's Development, we welcome regional initiatives, such as the work by the Economic Commission for Africa, for a joint annual

aid effectiveness review in a framework of mutual accountability that would also address harmonization issues.

11. Reflecting our experience over these last two days, we plan stocktaking meetings in early 2005 following the review already scheduled in DAC/OECD in 2004. This follow-up would assess progress in and sustain the momentum for fundamental changes that enhance aid delivery, and would contribute to the review of the implementation of the Monterrey Consensus, the timing and modalities for which are expected to be determined by 2005.

ANNEX A

Good Practice Standards or Principles for Harmonizing Donor Assistance

1. We welcome the collaboration of the OECD-DAC and the MDBs in the work on public financial management. We note the agreement that good public financial management should cover the preparation of the budget, internal control and audit, procurement, disbursement, monitoring and reporting arrangements, and external audit, and should promote overall fiscal discipline and efficient allocation of resources to priority needs. This collaboration reflects the importance we place on an improved accountability relationship between a partner developing country and its own citizenry that can be achieved in part through transparent public financial management processes and systems.

2. We note the good practice emphasis on working closely with governments on public sector financial reviews, and integrating these reviews into countries' poverty reduction strategies, donors' country assistance programs, and the decision-making cycles of both governments and donors. We believe that financial reviews should take account of initial country conditions; international standards, codes, and approaches; and capacity-building requirements toward compliance with these standards and codes. The OECD-DAC and MDBs have requested the International Federation of Accountants to consult broadly with donors and developing countries and prepare an accounting standard for development assistance by 2004, and we look forward to the outcome of this effort.

3. We acknowledge the considerable scope for simplified and harmonized approaches to financial reporting and auditing, including the form and content of financial reports, the financial reporting period, auditing standards, the qualifications of auditors and quality of audit firms, the selection and contracting of audit firms, the terms of reference for auditors, the due date for submission of audit reports, the coverage of management letters, and the follow-up to audit findings.

4. We note that the work of the MDB procurement group has already led to the agreement on one set of master documents for international competitive bidding, and that work toward agreement on others is far advanced. In relation to the harmonization pilots carried out in three countries, we welcome the proposed common procurement, implementation, and monitoring approaches for cofinanced sector programs and projects. We are pleased that participating donors and governments are developing standardized bidding documents for national competitive bidding and, on a case-by-case basis, common thresholds for national competitive bidding. We strongly support efforts to build partner countries' procurement capacity.

5. We note that a number of MDBs and many bilateral donors already have environmental policies and procedures that have much in common, and that there is increasing agreement on the importance of taking social impacts adequately into account in project preparation and implementation—either through environmental impact assessment or other types of social assessment. Further convergence is needed to eliminate duplication in assessing, documenting, and monitoring environmental and social impacts in the projects that donors jointly finance, and to better synchronize the consultation and disclosure processes associated with assessing such impacts. To this end, we affirm the need to harmonize with each other and with partner countries around systems and procedures that meet international good practice standards and

principles and focus on country capacity-building. We will also explore the scope for collaborating in reviews that assess adherence to undertakings to address environmental and social impacts.

6. Given that donors currently fund over 60,000 development projects and programs, and that preparing the multiple reports for each activity required by each donor often exceeds the capacity of partner countries, we agree that it is desirable for donors and partner countries to simplify individual systems and procedures and to work together toward common formats, content, and frequency for a single periodic report per project that meets the needs of all partners. In so doing, it will be important not to overburden country systems or divert existing capacity. We acknowledge that one way of achieving this would be to ensure that the reporting and monitoring systems that donors use are simplified and harmonized.

ANNEX B

Attendance and Organization of the High-Level Forum

Date and Place of the Forum

1. The High-Level Forum on Harmonization was held in Rome, Italy, February 24-25, 2003, in accordance with agreements set out in progress reports on harmonization to the Development Committee. The forum held seven plenary sessions.

Attendance

2. The following partner countries and multilateral and bilateral agencies/institutions were represented at the Forum:

Partner Countries

Albania
Bangladesh
Bolivia
Burkina Faso
Cambodia
Egypt
Ethiopia
Fiji
Guatemala
Guyana
Honduras
Jamaica
Kenya
Kyrgyz Republic
Mali
Mauritania
Morocco
Mozambique
Nicaragua
Niger Republic
Philippines
Romania
Senegal
Tanzania
Uganda
Vanuatu
Vietnam
Zambia

Multilateral and Bilateral Agencies/Institutions

African Development Bank
Asian Development Bank
European Bank for Reconstruction and Development
Inter-American Development Bank
DAC/OECD
World Bank
Australia
Austria
Belgium
Canada
Denmark
European Commission
Finland
France
Germany
Greece
Ireland
Italy
Japan
Kuwait
Luxembourg
Netherlands
New Zealand
Norway
Portugal
Saudi Arabia
Spain
Sweden
Switzerland
United Kingdom
United States
Caribbean Community
Caribbean Development Bank
Corporación Andina de Fomento
East African Development Bank
Economic Commission for Africa
European Investment Bank
International Fund for Agricultural Development
International Monetary Fund
Islamic Development Bank
Nordic Development Fund
Nordic Environment Finance Corp.
Nordic Investment Bank
OPEC Fund for International Development
Organization of the Eastern Caribbean States
Pacific Islands Forum
United Nations Development Programme
West African Development Bank